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FISCAL IMPACT STATEMENT

LS 6283
BILL NUMBER: HB 1272

NOTE PREPARED: Jan 5, 2006
BILL AMENDED:

SUBJECT: Self-assessment of real property.

FIRST AUTHOR: Rep. McClain
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides, beginning with the 2008 assessment date, a system of real property assessment for property tax purposes similar to the current system for personal property assessment. It requires taxpayers to file real property returns with the county assessor. It also provides that fair market value is the standard for real property assessment, and requires the Department of Local Government Finance (DLGF) to adopt rules for applying that standard. The bill eliminates township assessor responsibilities for real property assessment. It makes conforming changes.

Effective Date: Upon passage; July 1, 2006; January 1, 2008.

Explanation of State Expenditures: *Department of Local Government Finance (DLGF).* The DLGF must provide by rule for a self-assessment system for real property and mobile homes similar to the system used for the assessment of personal property other than mobile homes, including implementation of a requirement that an owner must file an annual property tax return. The DLGF would no longer be required to periodically check the conduct of a general reassessment, which would reduce administrative expenditures for the DLGF. However, if the DLGF determines that real property assessment activities are not being properly conducted, the DLGF may order a state-conducted review and assume the duties of the county assessor. These provisions will likely result in similar expenditures to those the DLGF experiences under the existing system. However, the state will need to review assessments from individual taxpayers as opposed to assessments developed by local officials. The fiscal impact is indeterminable. It is presumed that the rule-making process as well as the administrative realignment of the DLGF with the new system would be significant.

Under the current self-assessment system for personal property, the DLGF is required to see that personal property assessments are correctly and completely reported by annually conducting audits of a sampling of personal property assessment returns throughout the state. Presumably, a comparable system would be established to audit real property tax returns.

Legislative Services Agency (LSA). LSA must prepare legislation for introduction in the 2007 Regular Session of the General Assembly to make appropriate corrections and changes in statutes affected by this bill. LSA will be able to accomplish this task given its existing resources and staff.

Forms. The DLGF is required to prescribe certain forms necessary to the proposed system. The DLGF should be able to provide the necessary forms given its existing staff and resources.

Communication with Townships. The DLGF would no longer to conduct correspondence with townships relative to the assessment of property. The elimination of this correspondence should reduce administrative expenses for the DLGF. The specific impact is not known.

Contracts for Professional Appraising. The DLGF will need to adjust the standard contract to be used in securing professional appraising services in order to eliminate a provision requiring the appraiser to make periodic reports to the township assessors. Under the proposal, the reports would go to the county assessors. The DLGF should be able to adjust the forms given its existing resources.

Use of Professional Appraising Firm. The DLGF may contract with a professional appraising firm to conduct the review of individual returns. After receiving the report of AV's from the appraisal firm, the DLGF may revise any assessment. The costs for such a contract is indeterminable at this time.

Indiana Board of Review. The Indiana Board of Tax Review may designate a special masters to conduct evidentiary hearings and prepare reports. Each contract must specify the appointee's compensation and entitlement to reimbursement for expenses. Under existing law, the compensation and reimbursement for the special masters' expenses are paid from the county property reassessment fund. Under the proposal, the expenses would be paid from the state General Fund. Expenses of the special masters is not available at this time.

Changes in the way real property is assessed could affect the number of hearings brought before the Board. Additionally, if a county property tax assessment board of appeals fails to change an AV claimed by a taxpayer on a real property return and give notice of the change within the time prescribed, the county assessor may file a petition for review by the Indiana board. The specific impact of these provisions is indeterminable; however, a change in the board's caseload would change administrative expenses.

With respect to petitions for review, the special masters must set a hearing date and give notice of the hearing to the township assessor. Under the bill, the special masters will no longer need to notify the township which would reduce costs for the masters which, in turn, could reduce state costs.

Assessment Training. The DLGF provides training to county and township assessors with funds from the Assessment Training and Administration Fund. Money in the fund at the end of a state fiscal year does not revert to the state General Fund. Eliminating the township assessor could reduce administrative expenses associated with the provision of training. The DLGF will still have to provide training to county assessors officials. However, the potential number of trainees would be reduced.

Background Information: Assessors are currently required to maintain either Level I or Level II certification. The DLGF certifies the assessors. Assessing officials must earn 30 hours of education within a 4-year period to be certified as a Level I assessor. Officials must complete 45 hours of education within a 4-year period to be certified as a Level II assessor. The DLGF offers training and certification at no cost to the assessor. Education may also be earned at training offered by approved entities. Participants in the training offered by the DLGF are responsible for travel and associated costs which may be paid by the sponsoring governmental unit.

The next reassessment will begin in 2007 and must be completed by March 1, 2009. This reassessment will be the basis for taxes payable in 2010.

As of January 2005, of the 1,008 townships in the state, 177 had elected assessors and 831 had trustee-assessors. With respect to certification levels, 11 county assessors had obtained a Level I and 71 had obtained a Level II certification. For elected township assessors, 16 had attained Level I and 107 had attained Level II. For township trustee-assessors, 68 had attained Level I and 63 had attained Level II.

Returns. The DLGF, under the proposal, would need to develop a system to process each real property return. The DLGF may review any return. Expenses associated with these provisions will depend on how the DLGF decides to process each return.

Maximum Property Tax Rate. The bill eliminates provisions pertaining to adjustments to the maximum property tax rate for general reassessments. The DLGF will no longer be required to compute maximum rates which will reduce administrative expenses by an indeterminable amount.

Electronic Database. The bill specifies that the Division of Data Analysis must compile an electronic data base that includes real property AVs and data entries on real property return forms. Existing statute requires that the database include information on assessment records. This provision will increase administrative expenses for the division. The specific impact is indeterminable at this time.

Explanation of State Revenues: *Dedicated Funds Revenue.* Taxpayers must file real property returns with county assessors as opposed to the current system whereby local township officials are initially responsible for determining AV for real property owners and certain mobile home owners. Having taxpayers determine the AV will likely result in changes in the total AV that will be reported. The impact that this provision will have on state revenues is indeterminable. The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount of AV would change the amount received from this tax.

Explanation of Local Expenditures: *Township Assessing.* Township assessors would no longer be required to conduct real property assessments. Township assessors would no longer be required to determine and apportion the total AV of all interests in the gas located beneath the surface of a particular tract of land. These provisions will decrease township expenses by an indeterminable amount. As the work of the townships are taken over by individual property tax payers and the counties, the township expenses will decrease while the county expenses increase. The difference in the change in expenses for both entities is indeterminable. Currently, reassessment costs are paid from the county reassessment fund. Under the bill, costs would be paid from the county general fund.

The bill would eliminate general reassessments. Based on a DLGF November 2002 survey, costs for reassessment for counties ranged from $47,800 (Union County) to over $20 M (Lake County). Costs for the reassessment as of November 2002 had equaled approximately $69 M. However, at that time, data for Marion County and 15 other counties was unknown. Average reassessment costs equaled about $655,000 (excluding the $20 M costs incurred by Lake and excluding Marion County). The next reassessment was scheduled to occur in 2011 for taxes payable in 2012. Reassessments thereafter were to occur every four years. (Updated information on the total cost of reassessment will be provided if it becomes available.) The overall impact of the proposal on counties relative to costs for property assessment is indeterminable and would vary by county.

Taxpayer Filing of Real Property Return. County assessors may grant taxpayers extensions of not more than 30 days to file returns under certain conditions, although no penalty for failure to file is listed. County assessors may examine and verify or allow a contractor to examine and verify the accuracy of each real property return. County assessors must certify to the county auditor the AV of the real property in every taxing district in the county.

If a county board of appeals or member of a county property tax assessment board of appeals changes the AV, the board or member must give the person notice by mail. County assessors must make available for public inspection all returns and lists and related documents. County assessors must determine and apportion the total AV of all interests in the gas located beneath the surface of a particular tract of land. Counties assessors, instead of township assessors, would be required to keep relevant records pertaining to real property assessments and attend relevant meetings. County auditors would deliver lists of all real property to the county assessor as opposed to the township assessor. The county assessor as opposed to the township assessor must make the real property lists and the plats.

These provisions will increases administrative expenses to the counties. The increase will depend, in part, on the extent to which the counties currently review AVs.

County Land Valuation Commissions. The bill repeals provisions that established county land valuation commissions. This provision will decreases expenses for the county by an unknown amount.

Expenses Incurred by the Property Tax Assessment Board of Appeals. Under existing law, the expenses of the county property tax assessment board of appeals are paid from the property tax reassessment fund. Under the proposal, expenses would be paid from the county general fund.

Township and County Assessment Personnel. IC 6-1.1-4-16 provides that for purposes of making a general reassessment of real property or annual adjustments, any township assessor and any county assessor may employ deputies, employees, professional appraisers, and technical advisors. The bill eliminates this provision which will decrease expenses for the township and county.

Explanation of Local Revenues: *Requiring Taxpayers to File Real Property Assessments.* The bill provides that taxpayers must file real property returns with the county assessor. Under existing law, local township assessing officials are responsible for assessing real property. The impact that changing who does the assessing is indeterminable. However, total local revenues, except for cumulative funds, would remain unchanged. If the proposal results in a change in the valuation of real property, any change would affect revenues collected for cumulative funds. Revenues would be changed by the product of the fund rate multiplied by the change in assessed value amount applicable to that fund.

State Agencies Affected: DLGF, Indiana Board of Review, Indiana Board of Tax Review, State Fair, DNR Division of Forestry.

Local Agencies Affected: All local units.

Information Sources:

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